**The Great Atlantic & Pacific Tea Company, Inc.
Annual Report 1985**

Food unites all people. At least several times every day, each of us must decide what to eat, where to eat, and with whom. The absolute requirement that we feed our bodies is embellished by an enormous range of ways in which we break bread together.

Most people first receive nourishment from mother's milk. Our commitment to food and each other begins that early and it carries on virtually forever.

From the animal cracker happily melted down by a baby; the frankfurter grittily charred at a kids' campfire; the effortful romance of a courtship dinner; the reassuring hilarity of a family feast; and the Meals on Wheels of the elderly person, our lives are in constant relationship to food and through food to each other.

Food is a magnet. It draws us to each other. How we use food is very complex, often extraordinarily subtle, usually a very direct and colorful expression of our personal and cultural style. And North American consumers are fortunate in being able to do this with an unprecedentedly rich array of fresh and interesting products from which to choose.

This results from a remarkable system of producing and distributing food. When John Hartford was building A&P, his commitment to high volume and low profit margins established the industry standard. Hence our contemporary industry is at the efficient cutting edge by any world criterion. We spend less and less of our personal budgets for food as our system is *ceaselessly refined*. By contrast, proportionally Greeks must spend three times what we do to feed themselves while the vaunted Japanese need twice as much of their earnings for food as we do.

We can appreciate the magnitude of this accomplishment when we recall the misery and deprivation which ordinary people suffered following the Industrial Revolution. First in England and then elsewhere it deprived countless people access to fresh and varied food. It forced them into cities, into malnutrition. It meant that hearty traditional cookery was lost for generations. People were grateful to eat, let alone dine. But now in North America even people of relatively modest means can take advantage of an unparalleled variety of

food products—a variety becoming greater as consumers assert more fully than ever their tastes and concerns. We begin to enjoy once more the relatively direct contact with the soil which a super-efficient supermarket system has made possible.

North Americans have become more intrigued by food and more sophisticated about it than ever before. There have also been rapid and substantial changes in how and where we live and our schedules and personal obligations. The result is a newly vivid mosaic of vignettes in the kitchen, the dining room, on the move, and in a marketplace which has thrown unprecedented *challenges to the grocery* industry.

Perhaps the most dramatic cause with the most far-reaching effects has been the increase in the number of women in the labor force—more than 70 percent of women between the ages of 25 and 40. Women who in the past might have been home raising three or four children now may have two—if that many—and millions are busy outside of their homes. They are willing to pay

for convenience. Compared with their mothers, they acquire different food in different ways at different times. The heaviest supermarket shopping period used to be all day Thursday and Friday but now it is every day–from 4 to 7, and on weekends.

What does this mean for the kind of food people want? Obviously if we are shopping at 7 and taking home what we buy, we may select partially or fully prepared food. Salad bars, for example, offer just the right amount of just what we want to which our dressing can be added–the personal signature of the busy person. This is often what young single people do and they may continue when they marry. Since they shop after work and very simply get hungry–it's late by now–they are unlikely to cook something which takes hours; so there is a

trend towards already cooked main dishes, too. But these same fatigued shoppers are also upscale diners who care rather vigorously about the healthfulness and tastiness of what they eat. They are creating new demands for sophisticated variety which their markets have to meet in a lively way.

Everyone has experienced how much our society has changed. For example, an historically high divorce rate produces a large number of temporarily single people. But these singles have more complex and demanding expectations about food than youngsters sharing studios or people whose most recent dining room was a military mess hall.

A culinary consequence of this is a wider array of "boutique" style offerings of foods and equipment which must cater to their needs with small quantities and "gourmet" items.

Another relatively new group in the food market is men who, historically for the first time, are shopping for themselves and their families. Families for which they have full responsibility, whose chief cooks and bottle washers they are. While this is not a large group as yet, it is growing and so is its impact on the wider market. Certainly many more men then ever are gaining skills as cooks, cultivating a lively interest in food, and taking their turn stirring the stew.

One of the most important utensils in the North American kitchen has been the melting pot. An extraordinary variety of cuisines are represented here which in the past were mainly confined to their own communities. No longer. In a way, there are fewer and fewer so-called "ethnic markets" because everyone is shopping everywhere, cooking virtually everything, trying anything, and enjoying it all a lot. As food becomes more and more a source of genuine entertainment, new foods are like new places to visit. Soon they become familiar.

Announcing the new ethnic food: North American!

What remains central is that food is a linch pin in our social relations. It has itself become the equivalent of the campfire—represented by the new form of "open" kitchen designed as part and parcel of the dining area. Preparing food and enjoying it has become part of the same social process. And those of us in the grocery business have had to become aware of the visual and almost theatrical impact of food; our displays of food have had to match the consumer's own new commitment to the appearance of what they cook.

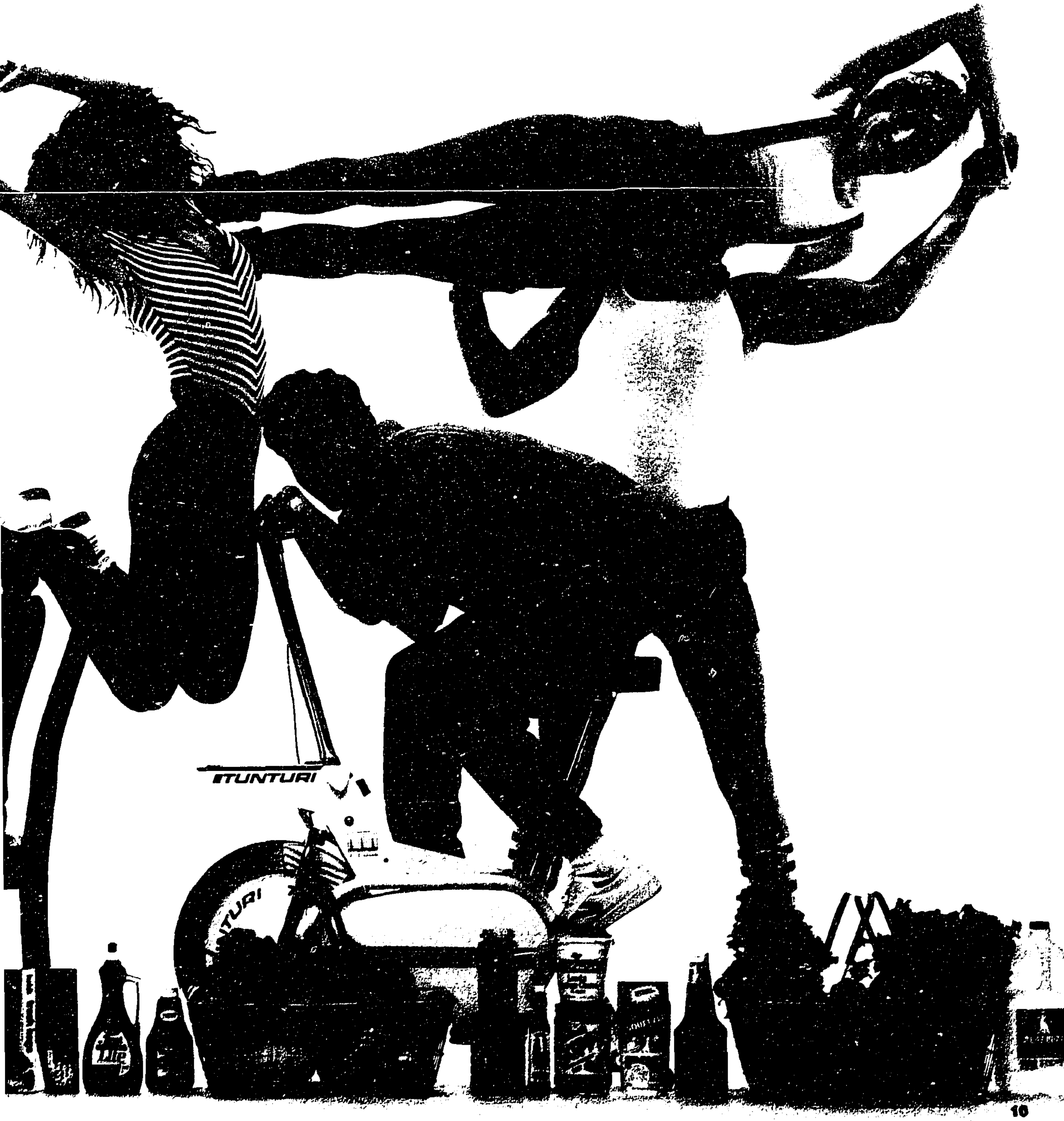
While there has been a widening of food options for many people, there has also been a narrowing of tolerance for some foods. There is a greater commitment to understanding nutritional value. So there has been a decline in the consumption of red meat, an increase in poultry and particularly fish, and an enhanced awareness of the genuine relationship between diet, health, exercise, and the quality of personal life. One encouraging indicator of this is the much improved experience of our society in avoiding heart disease.

We have had to respond alertly to people's desire to take control over what they eat and drink. We have had to secure reliable suppliers of imported foods, from sunny English jams to pungent Indian curries, from fresh cilantro to exotic seafood. We have to evaluate and then supply a host of new products from aseptic juice packs to traditional barbecued ribs. We have had to provide a growing and influential sector with detailed price labelling and comparative information. More and more this becomes important to the group of consumers who are still the largest in the marketplace–the women shoppers who must convert family income into healthy and satisfy-

ing food and for whom careful purchasing is a requirement and a challenge. People who feed others and themselves will want to generate the best value they can from their resources.

Food is so emotionally important that it cannot just provide a square meal--it also should feel like a square deal.

The market is no longer monolithic. It is complex, changing, intricate, surprising. The successful merchant must honor it, must be its student, must respond as smoothly as an athlete. John Hartford would be in his element.



Comparative Highlights

(Dollars in thousands, except per share figures)

	Fiscal 1985	Fiscal 1984	Fiscal 1983
Sales	**$6,615,422**	$5,878,286	$5,222,013
Income before extraordinary credits	**56,090**	50,779	31,401
Net income	**88,290**	215,779	47,551
Income per share before extraordinary credits	**1.48**	1.35	.84
Cash dividends per share	**.10**	–	–
Expenditures for property	**108,579**	112,695	72,564
Working capital	**174,091**	170,292	166,381
Current ratio	**1.30**	1 36	1 34
Shareholders' equity	**668,688**	582,953	375,789
Book value per share	**17.63**	15 48	10 02
Number of stores at year end	**1,045**	1,001	1,022

Contents

Chairman's Office

Foreground

James Wood, Chairman and Chief Executive Officer

From left

Alan C Goulding, Senior Executive Vice President

Louis Sherwood, President

Eckart C. Siess, Vice Chairman

James W Rowe, Vice Chairman

To Our Shareholders:

Hard-earned success. By any measure, 1985 was a satisfying year for A&P. We maintained our momentum in sales. Our earnings grew in the face of difficult competition in a number of markets. We made significant progress in our program of store renewal We successfully completed acquiring 92 Dominion Stores in Canada. We planned a $345 million three-year capital program to complete the modernization of our chain by 1988. And we were delighted and proud to resume the company's quarterly dividend to shareholders

Sales for the fiscal year ending February 22, 1986 were $6,615,422,000 representing a 12.5% increase over the $5,878,286,000 sales results in 1984. Operating income in 1985 was $119,404,000. This compares with $87,375,000 in 1984, an increase of 36 7%. Net income for 1985 was $88,290,000 or $2.33 per share This compares with $215,779,000 or $5.74 per share in 1984, which included an extraordinary pension credit of $135,000,000 and gains realized from the sale of marketable securities of $22,474,000. Extraordinary credits for tax carryforwards amounted to $32,200,000 in 1985 compared with $30,000,000 in 1984.

The front section of this report portrays the new consumers and the "Food Renaissance" that has taken place in North America during the past decade. This is in response to dramatic changes in how North Americans live and work. Broad social forces are affecting all aspects of food retailing and this is a strong and stimulating influence on our strategic plans for the future of A&P. We are in a time of minimal population growth, when there are too many stores in most markets The competition which results is intense. It sharpens the need for excellence in merchandising and store operations if our objective to grow in sales and earnings is to be achieved. We want to decisively out-perform the industry in sales and earnings growth while we continue to build and expand the chain over the next three years.

Since 1980, we have built, acquired or reopened 337 stores. We have expanded, remodeled, and improved another 436 stores, leaving 272 for future investment. Over the next three years, most of these will be enlarged or revamped. Some will be closed or sold, being unsuitable for our future needs. We also plan to build 106 new stores over that period. Most will be in our new Futurestore or Sav-A-Center formats—so successful in 1985. We also want to acquire other good stores to enrich our marketing areas and take advantage of distribution and advertising synergies.

We are carefully apportioning our capital to develop those markets with the greatest potential for future growth and where our competitive position is robust. The Sunbelt has attracted much development in recent years but is beginning to suffer from too many stores. Now the Northern markets, where most of A&P's trading is concentrated, offer good opportunities to attract customers with our innovative stores and approaches to merchandising.

We must also be concerned about investing in areas where non-union competition has a critical labor cost advantage. We have to find an equitable solution to that difficult problem before we can expand successfully through additional investment in particular regions. Today, we are more service oriented, and have as many people working as when we had 30% more stores. The new understanding we have reached with many of our unions has provided the motivation to increase productivity, allowing for the more labor-intense services we require. We need to extend that concept further.

We have immense assets A&P's large and diverse customer base creates many marketing opportunities for us. Our two new distinctive formats, the Futurestore and the Sav-A-Center, are designed to have broad customer appeal. Each is directed to a different but vital segment of the marketplace The Futurestore presents an upscale ambiance while the Sav-A-Center offers a more promotional atmosphere. When we have converted conventional stores to these new formats, we have been rewarded with dramatic sales increases and improved profit margins because of a more favorable balance in product mix between basic groceries, perishables, specialty departments and non-foods. Throughout our operations, we emphasize the quality and variety in our perishable departments while still focusing attention on competitive pricing.

In 1986 we are beginning a broad new marketing and advertising campaign which will make generous use of television to communicate the appeal of the new A&P stores we have created. We want to keep consumers alert to our commitment to competitive pricing and the superior quality and variety in our perishable departments. We seek to establish stronger communication links with the new consumers and become *their* favorite store, the one which satisfies their needs best Internally, we have characterized 1986 as "The Year of the Customer" as we reach out to attract more people of the 80's to the A&P, Super Fresh, Family Mart, Kohl's, Pantry Pride of Virginia and Super Dominion stores

To keep pace with the rapidly changing consumer and retail environment, it is essential that we take full advantage of new technologies to improve the effectiveness and quality of our management systems Computerized scanning has recently undergone rapid improvement in both quality and affordability. A&P currently operates 117 stores with scanning systems, up from 15 in 1980. There will be a dramatic increase in this number in 1986 and there will be more than 600 by 1988. This will decisively improve our front-end service and management information Better inventory control and improved merchandising data will also enable us to respond to the proliferation of new products which has made excellent inventory management such a profitable science. In the same vein, we are instituting direct product profitability systems to better control how much space we allocate to particular merchandise. We are improving our use of electronic techniques at the store level to control and schedule store labor and direct delivery systems as adeptly and economically as possible.

Our greatest challenge in the years ahead will be to continue building the organization necessary to lead our industry in a dynamic and competitive society. Our supermarkets of the 80's require much more from our people than the plain vanilla grocery stores of the past. We know this means we must make a major effort to upgrade the frequency and quality of our training programs for both basic and advanced skills. We must ensure management in depth and full development of a customer-oriented environment throughout our company.

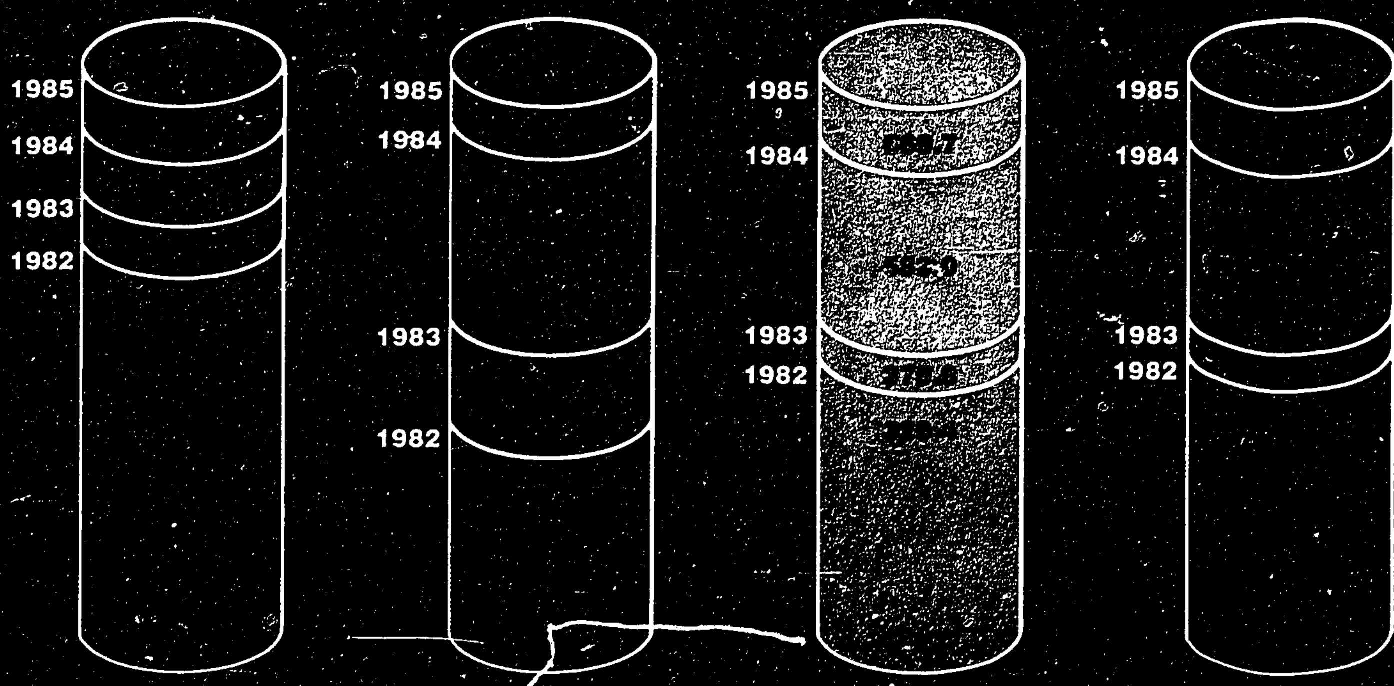
Since 1980, A&P has successfully navigated through a trying period of searching self-assessment, consolidation, and now renewal. We are well-positioned with the necessary resources to achieve a better than average growth rate and with the continued support of our shareholders, employees, suppliers, customers, and the communities in which we operate, our success is assured.

James Wood

Chairman and Chief Executive Officer

April 10 1986

Sales | **Income before Extraordinary Credits** | **Shareholders' Equity** | **Book Value per Share**



Statement of Consolidated Operations (Dollars in thousands except per share figures)

	Fiscal 1985	Fiscal 1984	Fiscal 1983
Sales	**$6,615,422**	$5,878,286	$5,222,013
Cost of merchandise sold	**5,043,440**	4,523,275	4,041,033
Gross margin	**1,571,982**	1,355,011	1,180,980
Store operating, general and administrative expense	**(1,452,578)**	(1,267,636)	(1,092,681)
Income from operations	**119,404**	87,375	88,299
Interest expense	**(40,454)**	(31,641)	(30,809)
Interest income	**30,140**	21,271	6,461
Gain on sale of marketable securities and other investments	**–**	22,474	–
Income before income taxes and extraordinary credits	**109,090**	99,479	63,951
Provision for income taxes	**(53,000)**	(48,700)	(32,550)
Income before extraordinary credits	**56,090**	50,779	31,401
Extraordinary credit-utilization of tax carryforwards	**32,200**	30,000	16,150
Extraordinary credit-pension	**–**	135,000	–
Net income	**$ 88,290**	$ 215,779	$ 47,551
Per common share			
Income before extraordinary credits	**$ 1.48**	$ 1 35	$ 84
Extraordinary credit-utilization of tax carryforwards	**.85**	80	43
Extraordinary credit-pension	**–**	3 59	–
Net income	**$ 2.33**	$ 5 74	$ 1 27

Statement of Consolidated Shareholders' Equity (Dollars in thousands)

	Fiscal 1985	Fiscal 1984	Fiscal 1983
Common stock			
Balance beginning of year	**$ 37,668**	$ 37,509	$ 37,405
Exercise of options	**271**	159	104
	$ 37,939	$ 37,668	$ 37,509
Capital surplus			
Balance beginning of year	**$ 422,613**	$ 421,715	$ 421,109
Exercise of options	**1,553**	898	606
	$ 424,166	$ 422,613	$ 421,715
Cumulative translation adjustment			
Balance beginning of year	**$ (15,577)**	$ (5,905)	$ (4,061)
Exchange adjustment	**(586)**	(9,672)	(1,844)
	$ (16,163)	$ (15,577)	$ (5,905)
Retained earnings (deficit)			
Balance beginning of year	**$ 138,249**	$ (77,530)	$ (125,081)
Net income	**88,290**	215,779	47,551
Cash dividends	**(3,793)**	–	–
	$ 222,746	$ 138,249	$ (77,530)

See Notes to Consolidated Financial Statements on pages 19 through 29

Consolidated Balance Sheet (Dollars in thousands)

	February 22, 1986	February 23, 1985
Assets		
Current assets		
Cash and short-term investments	**$ 68,740**	$ 72,591
Accounts receivable	**75,615**	56,030
Inventories	**576,717**	483,963
Properties held for sale	**14,138**	22,255
Prepaid expenses	**21,384**	7,983
Total current assets	**756,594**	642,822
Property		
Land	**25,272**	14,569
Buildings	**72,259**	49,806
Equipment and leasehold improvements	**607,957**	488,881
Total-at cost	**705,488**	553,256
Less accumulated depreciation and amortization	**(234,160)**	(210,163)
	471,328	343,093
Property leased under capital leases	**166,831**	123,344
Property-net	**638,159**	466,437
Marketable securities and other investments—at cost (approximates market)	**254,350**	244,899
Other assets	**14,657**	8,943
	$1,663,760	$1,363,101
Liabilities and Shareholders' Equity		
Current liabilities		
Current portion of long-term debt	**$ 30,076**	$ 11,872
Current portion of obligations under capital leases	**12,320**	12,894
Accounts payable	**332,045**	262,415
Accrued salaries, wages and benefits	**86,669**	75,136
Accrued taxes	**43,363**	41,221
Other accruals	**78,030**	68,992
Total current liabilities	**582,503**	472,530
Long-term debt	**151,306**	94,635
Obligations under capital leases	**196,360**	148,366
Deferred income taxes	**17,655**	14,655
Other non-current liabilities	**47,248**	49,962
Shareholders' equity		
Preferred stock-no par value, authorized-3,000,000 shares, issued-none		
Common stock-$1 par value, authorized-80,000,000 shares, issued and outstanding-37,939,112 and 37,667,978 shares, respectively	**37,939**	37,668
Capital surplus	**424,166**	422,613
Cumulative translation adjustment	**(16,163)**	(15,577)
Retained earnings	**222,746**	138,249
Total shareholders' equity	**668,688**	582,953
	$1,663,760	$1,363,101

See Notes to Consolidated Financial Statements on pages 19 through 29

Statement of Changes in Consolidated Financial Position (Dollars in thousands)

	Fiscal 1985	Fiscal 1984	Fiscal 1983
Source of funds:			
From operations			
Income before extraordinary credits	**$ 56,090**	$ 50,779	$ 31,401
Expenses not requiring working capital			
Depreciation and amortization	**80,341**	66,242	54,205
Charge in lieu of U S Federal income tax	**32,200**	30,000	16,150
Deferred income taxes	**3,000**	2,400	3,403
Working capital provided from operations before extraordinary credit	**171,631**	149,421	105,159
Extraordinary credit-pension	**–**	135,000	–
Total working capital provided from operations	**171,631**	284,421	105,159
Proceeds from borrowings	**127,582**	–	–
Conversion of prepaid pension upon plan termination	**–**	130,000	–
Disposition of property	**12,152**	5,980	7,336
Obligations under capital leases	**43,330**	12,617	3,185
Total	**354,695**	433,018	116,280
Disposition of funds:			
Expenditures for property	**108,579**	112,695	72,564
Acquisitions (excludes working capital acquired)	**85,434**	–	21,019
Current maturities and repayment of long-term debt	**73,415**	11,517	11,741
Property leased under capital leases	**43,330**	12,616	10,007
Decrease in obligations under capital leases	**12,066**	17,282	5,616
Increase in marketable securities and other investments	**9,451**	244,899	–
Cash dividends	**3,793**	–	–
Decrease in cumulative translation adjustment	**586**	9,672	1,844
Other, net	**14,242**	20,426	12,177
Total	**350,896**	429,107	134,968
Increase (decrease) in working capital	**3,799**	3,911	(18,688)
Working capital-beginning of year	**170,292**	166,381	185,069
Working capital-end of year	**$174,091**	$170,292	$166,381
Increase (decrease) in components of working capital:			
Cash and short-term investments	**$ (3,851)**	$ 7,396	$ (33,254)
Accounts receivable	**19,585**	6,101	(8,165)
Inventories	**92,754**	(10,071)	79,384
Properties held for sale	**(8,117)**	(15,898)	20,344
Prepaid expenses	**13,401**	1,028	3,156
	113,772	(11,444)	61,465
Current portion of long-term debt	**18,204**	(7,135)	7,148
Current portion of obligations under capital leases	**(574)**	332	1,883
Accounts payable	**69,630**	(28,765)	58,770
Accrued expenses	**13,675**	16,405	7,699
Other accruals	**9,038**	3,808	4,653
	109,973	(15,355)	80,153
Increase (decrease) in working capital	**$ 3,799**	$ 3,911	$ (18,688)

See Notes to Consolidated Financial Statements on pages 19 through 29

Summary of Significant Accounting Policies

Fiscal Year—The Company's fiscal year ends on the last Saturday in February Fiscal 1985 ended February 22, 1986, fiscal 1984 ended February 23, 1985 and fiscal 1983 ended February 25, 1984, each comprising 52 weeks

Common Stock—As of February 22, 1986, the principal shareholder of the Company, Tengelmann Warenhandelsgesellschaft, owned 52.6% of the Company's common stock

Principles of Consolidation—The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned

Inventories—Inventories are valued at the lower of cost or market, with cost being determined on the following bases inventories in stores—average cost under the retail method, other inventories primarily in warehouses and food processing facilities—cost on a first-in, first-out basis.

Properties—Depreciation and amortization are provided, generally on the straight line method, over the estimated useful lives of the respective assets. Buildings are depreciated based on lives varying from twenty to fifty years and equipment based on lives varying from three to twelve years Equipment and real property leased under capital leases are amortized over the lives of the respective leases Properties designated for sale and leaseback have been classified as current assets

Pre-opening Costs—Costs incurred in the opening of new stores are expensed at the time the store is opened.

Income Taxes—The Company's policy is to provide deferred taxes in recognition of timing differences between income for financial reporting and income tax purposes Investment tax credits are amortized over the estimated useful lives of the related assets

Retirement Plans—Costs of the Company's employee benefit plans are expensed and funded on a current basis Costs under union/management administered plans are expensed as provided for in the respective collective bargaining agreements

Compensated Absences—The Company accrues for vested and non-vested vacation pay Liabilities for compensated absences of $39 million and $33 million at February 22, 1986 and February 23 1985, respectively, are included in the balance sheet caption "Accrued salaries, wages and benefits".

Earnings Per Share—Net income per share is based on the weighted average number of common shares outstanding during the respective fiscal years Stock options outstanding had no material effect and therefore were excluded from the computation of net income per share

Operations in Geographic Areas

The Company has been engaged in the retail food business since 1859 and currently does business under the names A&P, Super Fresh, Family Mart, Kohl's, Pantry Pride, Sav-A-Center, Sun, Futurestores, Super Dominion and Compass Foods. Sales and revenues in the table below reflect sales to unaffiliated customers in the United States and foreign countries (principally Canada).

(Dollars in thousands)	**Fiscal 1985**	Fiscal 1984	Fiscal 1983
Sales			
Domestic	**$5,163,857**	$4,955,686	$4,328,059
Foreign	**1,451,565**	922,600	893,954
Total	**$6,615,422**	$5,878,286	$5,222,013
Income from operations			
Domestic	**$ 72,626**	$ 57,296	$ 63,536
Foreign	**46,778**	30,079	24,763
Total	**$ 119,404**	$ 87,375	$ 88,299
Assets			
Domestic	**$1,306,014**	$1,184,199	$1,008,604
Foreign	**357,746**	178,902	191,324
Total	**$1,663,760**	$1,363,101	$1,199,928

Acquisitions

On October 1, 1983 the Company acquired the net assets of Kohl's Food Stores ("Kohl's") for approximately $31 million in cash. The acquisition has been accounted for as a purchase and, accordingly, the results of operations of Kohl's are included in the Statement of Consolidated Operations from the date of acquisition. The excess of the fair value of net assets acquired over the purchase price has been applied as a reduction of the value of property acquired.

On April 29, 1985 the Company purchased from Dominion Stores Limited, 92 stores, 2 warehouses and an office complex ("Dominion") located in the Province of Ontario for approximately $116 million. The acquisition has been accounted for as a purchase and, accordingly, the results of operations of Dominion are included in the Statement of Consolidated Operations from the date of acquisition. Pro forma sales, had the acquisition been completed on February 26, 1984, would have been $6,718 million and $6,469 million for fiscal 1985 and 1984, respectively. Pro forma net income and net income per share have been omitted, as the results of Dominion prior to the date of acquisition would not materially affect the results as reported in the accompanying Statement of Consolidated Operations. Pro forma information is not necessarily indicative of the actual results that would have occurred, or of the future operations of the combined companies.

Indebtedness

Debt consists of.

(Dollars in thousands)	**February 22, 1986**	February 23, 1985
9½% Senior Notes, due in annual installments of $10,000 through October 1, 1992	**$70,000**	$80,000
13½% Promissory Notes	**64,732**	-
$80,000 Revolving Credit Agreement	**10,944**	-
9⅞% Mortgage, due in monthly installments of $83 through September 29, 1997	**11,667**	12,667
Other notes and mortgages, interest rates of ⅞% to 14⅛% due 1986 to 2002	**24,039**	13,840
	181,382	106,507
Less current portion	**(30,076)**	(11,872)
Long-term debt	**$151,306**	$94,635

The Company has commitments from banks pursuant to two revolving credit, term-loan agreements which allow the Company to borrow $100 million and $80 million on a revolving basis until September 1, 1986 and April 29, 1987, respectively. Thereafter, the Company has the right to convert these borrowings into 4 year and 5 year term loans, respectively, repayable in equal semi-annual installments. There were no borrowings under the $100 million agreement during fiscal 1985 and 1984 In addition, the Company maintains $102 million in lines of credit with banks

During fiscal 1985, borrowings under the Company's $80 million Revolving Credit Agreement, utilized for the acquisition of Dominion, were refinanced with 13½% Promissory Notes It is the Company's intent to refinance these short-term notes under the terms of the $80 million Revolving Credit Agreement.

The Company's loan agreements contain certain financial covenants including limitations on the payment of cash dividends, the maintenance of minimum levels of working capital and limitations on the incurrence of additional indebtedness and lease commitments. At February 22, 1986, approximately $146 million of retained earnings were free of the dividend restrictions

Maturities of debt during each of the next five fiscal years are: 1986–$30 million; 1987–$18 million, 1988–$25 million; 1989–$28 million, 1990–$25 million. Current maturities of debt in 1986 include $7 million of mortgages due after 1986 relating to "Properties held for sale".

Lease Obligations

The Company operates primarily in leased facilities. Lease terms generally range up to twenty-five years for store leases and thirty years for other leased facilities, with options to renew for additional periods. The majority of the leases contain escalation clauses relating to real estate tax increases, and certain of the store leases provide for increases in rentals when sales exceed specified levels In addition, the Company leases some store equipment and trucks

The consolidated balance sheet includes the following·

(Dollars in thousands)	**February 22, 1986**	February 23, 1985
Real property leased under capital leases	**$242,635**	$188,399
Equipment leased under capital leases	**34,834**	43,121
	277,469	231,520
Accumulated amortization	**(110,638)**	(108,176)
	$166,831	$123,344

Rent expense for operating leases consists of

(Dollars in thousands)	**1985**	1984	1983
Minimum rentals	**$53,144**	$47,044	$43,440
Contingent rentals	**6,573**	5,896	4,629
	$59,717	$52,940	$48,069

The minimum annual rentals for leases in effect at February 22, 1986 are shown in the table below. All amounts are exclusive of lease obligations and sublease rentals applicable to facilities for which reserves have previously been established

(Dollars in thousands)	Capital Leases		
Fiscal	Equipment	Real Property	Operating Leases
1986	$ 5,166	$ 31,649	$ 56,284
1987	3,849	31,021	53,489
1988	3,580	30,795	50,055
1989	508	30,479	44,860
1990	–	29,918	41,200
1991 and thereafter	–	334,794	353,474
	13,103	488,656	$599,362
Less executory costs	–	(8,540)	
Net minimum rentals	13,103	480,116	
Less interest portion	(1,956)	(282,583)	
Present value of net minimum rentals	$11,147	$197,533	

Stock Options

The Company has a 1975 and a 1984 Stock Option Plan for its officers and key employees Each of these plans provides for the granting of 1,500,000 options, and under certain conditions, the granting of Stock Appreciation Rights ("SAR's") at exercise prices equal to the fair value of the Company's common stock on the date the option is granted SAR's allow the optionee, in lieu of exercising options, to receive common stock, cash or a combination thereof in an amount equal to the excess of the fair market value of common stock on the date of exercise over the option price Compensation expense relating to SAR's of $3 million was recorded during each of the fiscal years 1985 and 1984 As of February 23, 1985 all available options under the 1975 Stock Option Plan had been granted.

A summary of option transactions is as follows

	Shares	Price Range Per Share
Outstanding February 25, 1984	987,978	$ 4 94-$12 88
Granted	535,000	14 75- 16.37
Cancelled or expired	(18,750)	5 50- 7 38
Options exercised	(159,422)	4 94- 11.81
SAR's exercised	(69,110)	4 94- 6 19
Outstanding February 23, 1985	1,275,696	4.94- 16 37
Cancelled or expired	(5,000)	5 50- 10 06
Options exercised	(271,134)	5 50- 15 12
SAR's exercised	(162,898)	4 94- 8 19
Outstanding February 22, 1986	836,664	$ 5.50-$16 37
Exercisable at		
February 23, 1985	831,565	
February 22, 1986	601,656	

Litigation

On March 18, 1983 a judgment was entered by the Federal Court in Newark, New Jersey and affirmed on December 29, 1983 by the Third Circuit Court of Appeals, approving the settlement of an action brought by a former executive on behalf of himself and a class of participants in the Company's Employees' Retirement Plan The action sought to prevent the termination of the plan and the distribution of the surplus assets to the Company Pursuant to the settlement, the benefits to participants were increased at a cost of $50 million On March 7, 1985, a purported class action was brought in the same federal court against the Company, members of its Board of Directors and of its Retirement Board, and the Commissioner of Internal Revenue The plaintiffs are persons who claim to be former employees who were discharged prior to obtaining vested pension rights under the plan The plaintiffs seek a declaratory judgment, claiming that they were discharged under circumstances constituting a partial termination of the plan, thus entitling them to benefits under the plan as well as other relief. On January 6, 1986, the federal court conditionally dismissed this purported class action, ruling that the plaintiffs were within the settlement class The court requested the Internal Revenue Service to review the issue of whether any partial terminations had occurred and to present its findings to the court for further determination if appropriate

The Company was a defendant in a number of court actions brought by cattle producers and feeders in Dallas Federal Court under the style *In re Beef Antitrust Litigation* The actions have been settled by all defendants

The Company is also involved in various other claims, administrative agency proceedings and other lawsuits arising out of the normal conduct of its business Although the ultimate outcome of the above legal proceedings cannot be predicted, the management of the Company believes that resulting liability, if any, will not have a material effect upon the Company's financial position.

Income Taxes

The provision for income taxes consists of the following

(Dollars in thousands)	**Fiscal 1985**	Fiscal 1984	Fiscal 1983
Current.			
Federal	**$ 37,400**	$ 30,000	$ 16,150
Canadian	**10,500**	12,400	11,895
State and local	**2,100**	3,900	1,102
	50,000	46,300	29,147
Deferred			
Federal	**(3,900)**	-	-
Canadian	**6,900**	2,400	3,403
	$ 53,000	$ 48,700	$ 32,550

The current Federal income tax provision for fiscal 1985 includes a $32 million charge in lieu of U S Federal income tax. This charge has been offset by an extraordinary credit of $25 million representing operating loss carryforwards, and, subject to statutory limitations, approximately $7 million of prior year investment tax credits, unrecognized due to previously unused operating loss carryforwards The current Federal income tax provision includes $30 million and $16 million of charges in lieu of U.S Federal income tax for fiscal 1984 and 1983, respectively, which have been offset by a corresponding extraordinary credit arising from the utilization of operating loss carryforwards.

The Company has unused investment tax credits for financial statement purposes of approximately $43 million which will expire during fiscal years 1990 through 2000 and, for income tax purposes, approximately $19 million which expire during fiscal years 1996 through 2000

The deferred Federal income tax provision results from expenses not yet deductible for tax purposes, offset by accelerated tax depreciation The deferred Canadian income tax provision results from the excess of depreciation for tax purposes over amounts recorded for financial statement purposes, and a provision for tax on current undistributed earnings of Canadian subsidiaries. Deferred income taxes have not been provided on approximately $15 million of undistributed earnings of Canadian subsidiaries which are considered to be permanently invested.

The $135 million extraordinary pension credit recorded in fiscal 1984 includes a $62 million charge in lieu of U.S Federal income tax offset by a $62 million extraordinary credit resulting from utilization of operating loss carryforwards.

Retirement Plans and Benefits

On May 31, 1984, the Company terminated its Employees' Retirement Plan, which resulted in extraordinary credits, net of applicable taxes, of $265 million. The credit of $135 million in fiscal 1984 represents the excess of the fair market value of the plan assets over the remaining liabilities associated with the plan termination less $130 million which was recorded in fiscal 1981.

On March 1, 1984, the Company adopted a defined contribution Retirement Savings Plan under which an eligible participant may contribute up to 16% of eligible salary The Company contributes 4% of such salary, plus 50% of the participant's initial 6% contribution Participants become fully vested in the Company's contribution after 5 years of service The Company's contribution charged to operations was $7 million for fiscal 1985 and $5 million for fiscal 1984

The Company also provides retirement benefits to certain non-union and some union employees under several defined benefit plans Most other full-time and certain part-time union employees are covered by industry plans administered jointly by management and union representatives The cost of these plans approximated $22, $21 and $18 million in fiscal 1985, 1984, and 1983, respectively.

A comparison of accumulated plan benefits and plan net assets for the Company's defined benefit plans is as follows:

(Dollars in thousands)	**January 1, 1986**	January 1, 1985
Actuarial present value of accumulated plan benefits:		
Vested	**$3,300**	$2,900
Non-Vested	**1,100**	900
	$4,400	$3,800
Net assets available for benefits	**$6,100**	$5,400

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 9 0% in fiscal 1985 and 1984, respectively. The assumed rate of return used was that published by the Pension Benefit Guaranty Corporation, an agency of the U S Government, for the applicable valuation date.

The Company's Canadian pension plans are not required to report to U.S. governmental agencies pursuant to ERISA and do not otherwise determine the actuarial value of accumulated benefits or net assets available for benefits as calculated and disclosed above For those plans, the actuarially computed value of vested benefits as of December 31, 1985 and 1984 was exceeded by the total of those plans' assets and balance sheet accruals

The Company could, under certain circumstances, be liable for unfunded vested benefits or other costs of jointly administered union/management plans

In addition to providing pension benefits, the Company provides contributory health and life benefits to approximately 1,400 employees who have elected early retirement Benefits are paid until such time as the employee reaches age 65. The costs of retiree benefits, which are not significant, are recognized as expense as claims are reported

Summary of Quarterly Results (unaudited)

The following table summarizes the Company's results of operations by quarter for fiscal 1985 and 1984 The first quarter of each fiscal year contains sixteen weeks and each of the remaining three quarters contains twelve weeks Management's Discussion and Analysis, which appears on page 31, discusses these results and changes reflected therein

(Dollars in thousands except per share figures)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
1985					
Sales	$1,938,860	$1,572,057	$1,523,792	$1,580,713	$6,615,422
Gross margin	461,290	374,277	358,480	377,935	1,571,982
Income from operations	34,236	28,937	27,948	28,283	119,404
Income before extraordinary credits	16,717	13,579	12,226	13,568	56,090
Net income	26,717	22,079	20,626	18,868	88,290
Per share data					
Income					
Before extraordinary credits	44	36	32	36	1.48
Net income	71	58	54	50	2 33
Cash dividends	–	–	–	10	10
Market price:					
High	18 1/2	17 1/8	19 7/8	22 1/2	
Low	15	15 1/4	15 3/8	18 1/2	
Number of stores at end of period	1,084	1,081	1,075	1,045	
1984					
Sales	$1,716,614	$1,377,410	$1,365,873	$1,418,389	$5,878,286
Gross margin	395,552	316,247	317,021	326,191	1,355,011
Income from operations	28,814	18,730	19,683	20,148	87,375
Income before extraordinary credits	11,091	11,733	15,811	12,144	50,779
Net income	151,341	19,413	26,731	18,294	215,779
Per share data					
Income.					
Before extraordinary credits	.30	31	.42	32	1 35
Net income	4.03	51	71	.49	5.74
Market price					
High	16 5/8	16 1/2	17 3/4	16 7/8	
Low	11 7/8	14 1/2	15 1/2	14 3/8	
Number of stores at end of period	1,015	997	1,017	1,001	

The Effects of Changing Prices (unaudited)

Basis of Preparation—The supplementary financial data presented in the tables below discloses estimated effects of inflation on certain historical financial data as required by Statement No 33 of the Financial Accounting Standards Board (FASB No 33), Financial Reporting and Changing Prices, as amended. The Company's primary financial statements are presented on a historical cost basis, that is, on a basis of the prices in effect when the transactions occurred. The data which follows attempts to adjust the historical amounts for the effects of inflation.

Current cost information reflects historical cost data adjusted to reflect the estimated current costs of inventory and property, plant and equipment which have generally increased over time Because of the rapid turnover of inventories, the carrying value of inventories at historic costs is assumed to approximate current cost; therefore, cost of merchandise sold reflects approximate current costs at time of sale.

The current cost calculations for acquiring the same service potential as the Company's owned assets involve a number of judgments as well as the use of estimating techniques employed to limit the cost of accumulating the data. The data reported should not be thought of as precise measurements of the assets and expenses involved, but instead, approximations of the changes that have occurred in specific prices for resources used by the Company

The current cost of stores operating under capital leases and store equipment was estimated using the unit pricing method The current costs of all other fixed assets were estimated using the indexing method. Current cost depreciation is based on the average current cost of property and equipment during the year Depreciation expense was computed by applying the ratio of historical cost depreciation expense to the current cost of these assets.

Statement of Income Adjusted for Changing Prices

At February 22, 1986 (Dollars in thousands)	Historical Financial Statements	Adjusted For Specific Prices (Current Cost)
Statement of Consolidated Operations		
Sales	$6,615,422	$6,615,422
Costs and expenses:		
Cost of merchandise sold	5,043,440	5,043,440
Depreciation and amortization	80,341	120,900
Other costs	1,382,551	1,382,551
Total costs and expenses	6,506,332	6,546,891
Income before income taxes and extraordinary credits	109,090	68,531
Net income	88,290	47,731
Changes in carrying values		
Gain from decline in the purchasing power of net amounts owed		14,000
Increase in current cost of inventories and property, plant and equipment		53,100
Less effect of increase in general price level		25,300
Excess of increases in specific prices over increase in the general price level		27,800
Property, plant and equipment—net	638,159	957,600

The Effects of Changing Prices (continued)

Five-Year Comparison of Selected Supplementary Financial Data Adjusted For Effects of Changing Prices

(Dollars in thousands, except per share figures—in average 1985 dollars)

For the Fiscal Year	**1985**	1984	1983	1982	1981
Sales	**$6,615,422**	$6,113,417	$5,648,129	$5,148,281	$7,334,260
Historical cost information adjusted for specific prices.					
Net income (loss)	**47,731**	179,422	7,918	(35,609)	(219,800)
Net income (loss) per share	**1.26**	4 77	22	(96)	(5.88)
Excess of increases in specific prices over increases in the general price level	**27,800**	63,856	25,052	4,648	14,619
Net assets at year end	**988,100**	923,312	673,605	645,868	707,464
Other information:					
Purchasing power gain on net amounts owed	**14,000**	17,680	22,449	19,608	58,856
Market price per share at year end	**22.50**	16 00	12 72	11 37	5 45
Average consumer price index	**324.1**	312 9	300.5	290 8	275 9

Management Overview—The effect of inflation on the Company's financial results is significant as it relates to inventory, the historical cost of property, plant and equipment (including real property and equipment leased under capital leases) and the related depreciation and amortization expense Because property, plant and equipment are purchased over an extended period of time, ongoing replacement of existing facilities would be at a much greater cost than that reflected on the balance sheet in historical dollars. Also, depreciation and amortization expense, as reflected in the Company's primary financial statements, includes a ratable portion of those historical dollar costs of property, plant and equipment against sales which are stated in current dollars. The difference between the Statement of Income Adjusted for Changing Prices and the primary financial statements is due to the effect of the increase in depreciation and amortization expense to reflect average fiscal 1985 dollars and specific prices.

Management's Report on Financial Statements

The management of The Great Atlantic & Pacific Tea Company, Inc has prepared the consolidated financial statements and related financial data contained in this Annual Report The financial statements were prepared in accordance with generally accepted accounting principles appropriate to our business and, by necessity and circumstance, include some amounts which were determined using management's best judgments and estimates with appropriate consideration to materiality. Management is responsible for the integrity and objectivity of the financial statements and other financial data included in this report. To meet this responsibility, management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that accounting records are reliable. Management supports a program of internal audits and internal accounting control reviews to provide assurance that the system is operating effectively

The Board of Directors pursues its responsibility for reported financial information through its Audit Review Committee. The Audit Review Committee meets periodically and, when appropriate, separately with management, internal auditors and the independent certified public accountants, Deloitte Haskins & Sells, to review each of their respective activities.

James Wood

James Wood
Chairman of the Board of Directors
and Chief Executive Officer

Opinion of Independent Certified Public Accountants

To the Shareholders and Board of Directors of The Great Atlantic & Pacific Tea Company, Inc..

We have examined the consolidated balance sheets of The Great Atlantic & Pacific Tea Company, Inc. and its subsidiary companies as of February 22, 1986 and February 23, 1985 and the related statements of consolidated operations, shareholders' equity and changes in financial position for each of the three fiscal years in the period ended February 22, 1986 Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances

In our opinion, the accompanying financial statements present fairly the financial position of the companies at February 22, 1986 and February 23, 1985 and the results of their operations and the changes in their financial position for each of the three fiscal years in the period ended February 22, 1986, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

Hackensack, New Jersey
April 10, 1986

Five-Year Summary of Selected Financial Data

(Dollars in thousands except per share figures)

For the Fiscal Year	**1985**	1984	1983	1982	1981
Operating results					
Sales	**$6,615,422**	$5,878,286	$5,222,013	$4,607,817	$6,226,755
Income (loss) before extraordinary credits	**56,090**	50,779	31,401	21,361	(231,633)
Net income (loss)	**88,290**	215,779	47,551	31,211	(101,633)
Per share data					
Income (loss) before extraordinary credits	**1.48**	1 35	84	57	(6 19)
Net income (loss)	**2.33**	5 74	1 27	83	(2 72)
Cash dividends	**.10**	–	–	–	–
Financial position					
Current assets	**756,594**	642,822	654,266	592,801	608,127
Current liabilities	**582,503**	472,530	487,885	407,732	432,365
Working capital	**174,091**	170,292	166,381	185,069	175,762
Current ratio	**1.30**	1 36	1 34	1 45	1 41
Total assets	**1,663,760**	1,363,101	1,199,928	1,087,395	1,141,679
Long-term debt	**151,306**	94,635	106,152	116,557	128,416
Capital lease obligations	**196,360**	148,366	153,031	143,160	153,975
Equity					
Shareholders' equity	**668,688**	582,953	375,789	329,372	302,153
Book value per share	**17.63**	15 48	10 02	8 81	8 08
Weighted average shares outstanding	**37,839,000**	37,599,000	37,456,000	37,399,000	37,393.000
Number of shareholders	**22,433**	24,746	27,289	29,312	31,311
Other					
Number of employees	**60,000**	53,000	53,000	40,000	45,000
Number of stores at year end	**1,045**	1,001	1,022	1,016	1,055
Total store area (square feet)	**27,648,000**	25,313,000	23,276,000	22,601,000	23,742,000

Operating Results

Fiscal 1985 Compared with 1984

Sales for fiscal 1985 were $6.6 billion as compared with $5.9 billion in fiscal 1984, a 12.5% increase. Average weekly sales per store for the period increased from $112,953 to $118,266 for an increase of 4.7%. The increase in sales reflects the acquisition of Dominion during the first quarter of 1985, the construction of new stores and the remodeling of existing stores.

Gross margins as a percent of sales increased .7% over the prior year from 23.1% to 23.8% resulting primarily from cost reductions due to a more aggressive purchasing policy.

Store operating, general and administrative expense as a percent of sales increased to 22.0% for the current year from 21.6% for the prior year primarily due to increased costs and expenses associated with the remodeling and new store development programs.

The increase in interest income is attributable to the higher average level of interest bearing marketable securities. The increase in interest expense is due to borrowings associated with the acquisition of Dominion and additional capital leases.

The provision for income taxes increased as a result of increased profitability. The effect of the increase was partially offset by extraordinary credits representing the utilization of the Company's U.S. Federal net operating loss and investment tax credit carryforwards

Fiscal 1984 Compared with 1983

Sales for fiscal 1984 were $5.9 billion as compared with $5.2 billion in fiscal 1983, a 12.6% increase. Average weekly sales per store for the period increased from $106,500 to $112,953 for an increase of 6.1%. The increase in sales reflects the purchase and construction of new stores during fiscal 1984, the acquisition of Kohl's Food Stores during the third quarter of 1983 and the continued growth and development of the Super Fresh subsidiary

Gross margins as a percent of sales increased .5% over the prior year, from 22.6% to 23.1% resulting primarily from cost reductions due to a more aggressive purchasing policy.

Store operating, general and administrative expense as a percent of sales increased to 21.6% for the current year from 20.9% for the prior year primarily due to an increase in costs associated with the Company's new Employee Retirement Savings Plan and Stock Appreciation Rights.

The increase in interest income is attributable to the higher average level of marketable securities resulting from the Company's Pension Plan termination. In addition, net income includes $22.5 million of gains realized in connection with the sale of certain marketable securities

The provision for income taxes increased as a result of increased profitability. The effect of the increase was offset by an extraordinary credit representing the utilization of the Company's U.S. Federal net operating loss carryforward.

With the termination of its Employees' Retirement Plan on May 31, 1984, the Company recorded an extraordinary credit of $135 million

Fiscal 1983 Compared with 1982

Sales for fiscal 1983 were $5 2 billion compared with $4 6 billion in fiscal 1982, a 13 3% increase. The increase in sales was attributable to the further development of the Super Fresh subsidiary and the acquisition of Kohl's Food Stores in October, 1983 Average weekly sales per store increased from $96,700 to $106,500 for an increase of 10.1% reflecting the development of the Super Fresh subsidiary and the store remodeling and development program

Gross margins as a percent of sales increased slightly primarily as a result of improved buying practices.

Operating expenses as a percent of sales have remained constant at 20 9% from 1982 to 1983

The provision for income taxes increased as a result of increased profitability. The effect of the increase was offset, in part, by the extraordinary credit representing the utilization of the Company's U.S Federal net operating loss carryforward

Liquidity and Capital Resources

The Company ended the fiscal year with working capital of $174 million as compared with $170 million and $166 million at February 23, 1985 and February 25, 1984, respectively. The Company had cash and short-term investments aggregating $69 million at the end of fiscal 1985 as compared with $73 million and $65 million at the end of fiscal 1984 and fiscal 1983, respectively. In addition, at the end of fiscal 1985, the Company had $254 million of marketable securities and other investments as compared with $245 million at the end of fiscal 1984. The Company also has in excess of $200 million in available credit facilities

During fiscal 1985, the Company financed its debt repayments, capital expenditures and cash dividends through internally generated funds supplemented by lease and sale/leaseback financing The financing of the purchase price for the acquisition of Dominion was provided through external borrowings

These available cash resources, together with income from operations, are sufficient for the Company's capital expenditure program, debt retirements and dividend payments in fiscal 1986 The Company may also supplement these resources through leasing and sale/leaseback transactions.

Corporate Officers

James Wood
Chairman of the Board and Chief Executive Officer

Louis Sherwood
President and Chief Administrative Officer

James W. Rowe
Vice Chairman of the Board and Assistant to the C E O

Eckart C. Siess
Vice Chairman of the Board, Strategic Planning

Alan C. Goulding
Senior Executive Vice President and Chief Operating Officer

Martin H. Kern
Executive Vice President, General Merchandise

Joseph H. McCarthy
Executive Vice President, Store Operations

Peter J. O'Gorman
Senior Vice President, Development

Ivan K. Szathmary
Senior Vice President, Chief Services Officer

Robert G. Ulrich
Senior Vice President and General Counsel

Thomas L. Barrette
Vice President, Human Resources

Randell A. Bostwick
President, Super Market Service Corp

Peter R. Brooker
Vice President, Planning and Corporate Secretary

James B. Burmeister
President, New Orleans Group

O.C. Cook
Vice President, Meat and Service Departments

Timothy J. Courtney
Vice President, Taxation

Julian J. DiFiore
President, Super Fresh Food Markets

R. Paul Gallant
President, Compass Foods

George Graham
Vice President, Merchandising Coordinator

Michael J. Larkin
Vice President, Metro New York Group

Peter R. Lavoy
Vice President, Procurement

Francis X. Leonard
Vice President, Real Estate

H. Nelson Lewis
Vice President, Retail Operations Services

James L. Madden
President, Mid-Atlantic Operations

Edward C. Mossop
Chairman, A&P Canada

Mary Ellen Offer
Assistant Corporate Secretary

Joseph P. Quirk
Vice President, Labor Relations

Gregory K. Raven
Vice President, Treasurer and Assistant Chief Financial Officer

Michael J. Rourke
Vice President, Communications and Corporate Affairs

John D. Ryder
Vice President, Marketing

Richard J. Scola
Vice President and Assistant General Counsel

Caryle Sherwin
President, Midwest Operations

J. Paul Stillwell
President, Southeast Group and Family Mart

Robert W. Toomey
Vice President, Support Services

Burton J. Weinbaum
Vice President, Northeast Group

Herbert L. Whiteside
Vice President, Richmond/Pantry Pride

Directors

James Wood (c)
Chairman of the Board and Chief Executive Officer

Rosemarie Baumeister (b)
Executive Vice President, Tengelmann Warenhandelsgesellschaft, West Germany

Harold J. Berry (b) (c) (d)
Vice Chairman of The Board Emeritus, Merrill Lynch, Pierce, Fenner & Smith, Inc

Walter D. Dance (a) (d) (e)
Director Emeritus and Consultant, General Electric Company

Christopher F. Edley (a) (d) (e)
President, United Negro College Fund, Inc

Helga Haub (c) (d)

Barbara Barnes Hauptfuhrer (a) (e)
Director of various corporations

Paul C. Nagel, Jr. (a) (d)
Director of various corporations

James W. Rowe (c) (d) (e)
Vice Chairman of the Board and Assistant to the C E O

Louis Sherwood (c) (d)
President and Chief Administrative Officer

Eckart C. Siess (c) (e)
Vice Chairman of the Board, Strategic Planning

Fritz Teelen
Executive Vice President, Merchandising, Tengelmann Warehandelsgesellschaft

Henry W. Van Baalen (b)
Business Consultant

(a) Member of Audit Review Committee
Paul C Nagel, Jr, Chairman
(b) Member of Compensation Policy Committee
Harold J Berry, Chairman
(c) Member of Executive Commitee
James Wood, Chairman
(d) Member of Finance Committee
Paul C Nagel, Jr, Chairman
(e) Member of Retirement Benefits Committee
Barbara B Hauptfuhrer, Chairman

Executive Offices
Box 418
2 Paragon Drive
Montvale,
New Jersey 07645
Telephone 201-573-9700

Transfer Agent and Registrar
Manufacturers Hanover Trust Company
New York, New York

The Annual Meeting will be held on Thursday, July 3, 1986 at 10 00 a m , at the Marriott Marquis Hotel, 1535 Broadway New York, N Y 10036 Shareholders are cordially invited to attend

Copies of Form 10-K submitted to the Securities and Exchange Commission will be provided to shareholders upon written request to the Secretary

Common stock of the Company is traded on the New York Stock Exchange under the symbol "GAP," and has unlisted trading privileges on the Boston, Midwest, Philadelphia, Cincinnati, and Pacific Stock Exchanges